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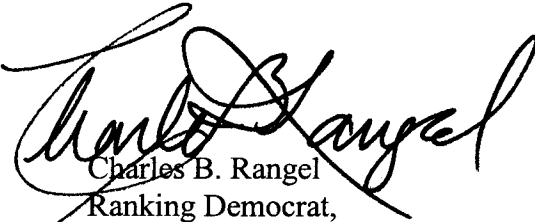
**Social Security Privatization Will Destroy What
Benefits African Americans the Most**

Dear Democratic Colleague:

As part of their disinformation campaign on privatization, the Bush Administration and its allies have asserted that Social Security is a "bad deal" for African Americans, and that private accounts would be of greater benefit. Nothing could be further from reality.

We want to bring your attention to the attached article by Dr. Maya Rockeymoore, Vice President of Research and Programs at the Congressional Black Caucus Foundation, which appears in the current issue of *The Black Commentator*. In this article, Dr. Rockeymoore explains why Social Security is so important to African Americans, and why privatization would strike a devastating blow to the very benefits they rely on most.

Sincerely,


Charles B. Rangel
Ranking Democrat,
Committee on Ways and Means


Elijah E. Cummings
Member of Congress

BAMBOOZLED: DESTRUCTION OF SOCIAL SECURITY WOULD HARM BLACK COMMUNITIES

by Maya Rockeymoore, Ph.D.

A big hoax is about to be pulled on the American people in the name of Social Security reform if President Bush and the Republican Congress get their way and send Social Security money to Wall Street. If this happens all Americans will lose big but African Americans will likely receive the shortest end of the stick.

Rationale for Social Security Privatization is Pulp Fiction

Social Security "reform," codeword for privatization, seeks to divert all or a portion of the funds currently supporting the Social Security program into 401K-type accounts that individuals can invest in the stock market. While this idea may seem innocuous on its face, the reality is that privatization is a duplicitous attempt to renege on our country's promise to provide reliable support to aging retirees, disabled workers, and orphaned dependents.

Supporters of individual account proposals seek to perpetuate the fiction that Social Security is facing a fiscal crisis that can be solved only by privatizing the system. In reality, Social Security's "crisis" is thus: in the year 2052 the Social Security trust funds will be able to pay 80 cents on every \$1 in benefits promised. What privatizers don't want Americans to know is that this 20 cent gap per dollar of promised benefits is manageable and can be closed without radically altering the system. In fact, the tax cuts President Bush gave away to the wealthiest one percent of Americans could have covered the amount of the long-term Social Security shortfall and there would have still been money left over for other important priorities.

So, if Social Security's fiscal imbalance is manageable why is it that supporters of privatization are so intent on changing the system? Could it be that they seek cover in their attempts to justify the massive transfer of taxpayer dollars to the money managers on Wall Street - a move that will further benefit the rich at the expense of working and middle class families? Could it be that they seek to dismantle an efficient federal entitlement program that they have historically resented because all - including the wealthy - must contribute? Could it be that, (like corporations who move from defined benefit pension plans to defined contribution plans), they seek to make individuals more responsible for shouldering the financial burden of their own retirement? Or, could it be all of the above?

Plans to Privatize Blow a Hole in Social Security and the Federal Budget

However you assess their strategy, one thing is for certain: proponents do not promote

privatization because their plans are affordable, effective, or efficient. Indeed, privatization plans like those put forth by President Bush's Social Security reform commission, are prohibitively expensive. Not only do they blow a big hole in the Social Security Trust Fund (thereby cutting benefits) by removing trillions of dollars in dedicated revenue, they also require massive transfers of money from the general budget in order to sustain the transition and administrative costs of individual accounts over the short, medium, and long term.

Since President Bush has already ruled out the possibility of raising taxes in order to finance these enormous costs, it is guaranteed that they will have to be paid for by further shrinking Social Security benefits and/or by piling more debt on top of our already steep federal budget deficits - creating a hole so deep it will take our economy almost 60 years to recover according to the 2004 Economic Report of the President.

African Americans are Harmed by Privatization Plans

Privatization's likely impact on African American families provides a prime example of why these plans also fail the effectiveness test. Because of historical patterns of discrimination in the U.S. education system and labor market, African Americans are more likely to earn a modest living during the course of their working lives, more likely to have experienced spells of unemployment or underemployment, and more likely to retire with less income from private pensions, assets or personal savings. To add insult to injury, African Americans' disproportionate lack of access to quality, affordable healthcare - also rooted in education, employment and income inequities - contributes to our higher rates of disability and early death.

A comprehensive community insurance plan, Social Security provides an equalizing effect in this perfect storm through the provision of a steady monthly check for retirees, for those who become disabled, and for the dependent children and spouse of a worker who has died in the prime of his or her life.

On the whole, Social Security Administration statistics show that African Americans benefit significantly from these benefits. The only source of retirement income for 40 percent of African American seniors, SSA estimates the poverty rate for elderly blacks would more than double - from 24 percent to 65 percent - without Social Security. Benefits for black seniors are boosted further by annual cost of living adjustments and a progressive benefit structure that replaces a larger percentage of pre-retirement earnings for lower-income earners. In addition, Social Security's disability and survivor benefits are also extremely important for black families. Although only 12 percent of the U.S. population, African Americans are almost 18 percent of those receiving disability benefits. In addition, black children represent 23 percent of all children receiving survivor benefits.

Given the various ways in which Social Security benefits black families, how would privatization proposals stack up? The short answer: they don't. By diverting trillions of dollars in revenue

away from Social Security, privatization plans require drastic up-front cuts to Social Security thereby reducing the guaranteed amount received by African American seniors on modest, fixed-incomes. Since they are all factored into the same OASDI (Old Age, Survivor and Disability Insurance) formula, the diversion will also reduce and destabilize the disability and survivor aspects of Social Security that are vital to African American families. Private accounts also eliminate the progressive aspects of the current system that provide more help for African American seniors (those privatizers who say they maintain progressivity by allowing low-income earners to contribute more to their individual accounts are only guaranteeing them more exposure to the risks of the stock market).

And will African Americans be able to make up for these reductions through earnings from their individual accounts as privatizers claim? The answer ranges from maybe to no. First, is the obvious that the stock market's notorious fluctuations cannot guarantee the long-term growth of amounts contributed to individual accounts. But income inequalities would still be exacerbated for African American families under healthy stock market assumptions. This is true because, in the absence of a real progressive benefit structure, black families would only accrue interest on their smaller wage-based contributions. And, because of higher unemployment rates, African Americans would be doubly vulnerable to having periods of zero earnings where no contributions at all are made to individual accounts. Unlike Social Security, individual accounts would not offset this labor market disadvantage. Finally, the higher administrative fees associated with these accounts are likely to wipe out a significant portion of any accumulated earnings.

Thus, the unsteadiness of the market, smaller wage-based contributions, greater periods of unemployment, and high administrative fees make all African Americans, but especially low-income earners, vulnerable to the risk of having an inadequate level of retirement benefits under private individual accounts.

The problems are even greater for disability and survivor benefits. While the President's Commission did not address what would happen to these benefits, it is widely understood that individual accounts cannot make up for their value because these benefits are often needed in the prime of a worker's life - long before accounts have had time to accumulate significant earned interest.

Privatization Destroys Communities

Privatizers consistently argue that African Americans will experience a greater rate of return under a system of individual accounts. Their assertion, however, misses the point: it is misleading to measure Social Security benefits by rates of return. Unlike the private securities market, Social Security is an insurance system that re-distributes economic assistance to contributors and their families on an as needed basis at various points during their lives. The value of this assistance for working and middle class African Americans families, particularly in

the event of unexpected occurrences like disability or death, is priceless when considering how expensive it would be if offered by the private insurance market.

Overall, African Americans are likely to experience a negative rate of return. This is true particularly for younger generations who would have the triple burden of paying for current retirees, paying for their own individual accounts, and figuring out how to meet living costs in the face of diminished disability and survivor benefits. This state of affairs would be complicated by the fact that heavy borrowing will lead to the reduction or elimination of other social programs important to African American communities.

There are 101 very good reasons why Americans of all backgrounds should rise up to defeat attempts to privatize the Social Security system. African Americans, however, should be highly alarmed about privatization's implications for the economic stability of their families and community. For it is a guaranteed formula for disaster when senior citizens, disabled workers, and children whose caregivers are deceased no longer have the ability to put food on their table or a roof over their heads.

Dr. Maya Rockeymoore is currently Vice President of Research and Programs at the Congressional Black Caucus Foundation. Previously serving on the Social Security Subcommittee of the U.S. House of Representatives Committee on Ways and Means, she is the co-editor of Strengthening Communities: Social Insurance in a Diverse America and author of The Political Action Handbook: A How To Guide for the Hip Hop Generation.